

SAN DIEGO UNIFIED SCHOOL DISTRICT

Audit Report

INTRADISTRICT ATTENDANCE PROGRAM

Chapters 161 and 915, Statutes of 1993

July 1, 2001, through June 30, 2003



STEVE WESTLY
California State Controller

July 2005



STEVE WESTLY
California State Controller

July 22, 2005

Alan D. Bersin
Superintendent of Public Instruction
San Diego Unified School District
4100 Normal Street
San Diego, CA 92103-2682

Dear Mr. Bersin:

The State Controller's Office audited the costs claimed by the San Diego Unified School District for the legislatively mandated Intradistrict Attendance Program (Chapters 161 and 915, Statutes of 1993) for the period of July 1, 2001, through June 30, 2003.

The district claimed \$724,459 for the mandated program. Our audit disclosed that \$412,789 is allowable and \$311,670 is unallowable. The unallowable costs occurred primarily because the district claimed unallowable salary and benefit costs and did not report applicable offsetting reimbursements. The State made no payment to the district. The State will pay allowable costs claimed, totaling \$412,789, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

VINCENT P. BROWN
Chief Operating Officer

VPB:JVB/ams

cc: Scott Patterson

Chief Financial Officer
San Diego Unified School District

Arthur M. Palkowitz, Manager
Office of Resource Development
Financial Division
San Diego Unified School District

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the San Diego Unified School District for the legislatively mandated Intradistrict Attendance Program (Chapters 161 and 915, Statutes of 1993) for the period of July 1, 2001, through June 30, 2003. The last day of fieldwork was March 29, 2005.

The district claimed \$724,459 for the mandated program. Our audit disclosed that \$412,789 is allowable and \$311,670 is unallowable. The unallowable costs occurred primarily because the district claimed unallowable salary and benefit costs and did not report applicable offsetting reimbursements. The State made no payment to the district. The State will pay allowable costs claimed, totaling \$412,789, contingent upon available appropriations.

Background

Chapter 161, Statutes of 1993, added *Education Code* Section 35160.5(c), which was subsequently renumbered as Section 35160.5(b) by Chapter 204, Statutes of 1996. The law requires the governing board of each school district to prepare and adopt, on or before July 1, 1994, rules to establish and implement an open enrollment policy for district residents. The policy must ensure that:

1. The parent or guardian of each school-aged child who is a resident in the district may select the schools the child shall attend;
2. Once an intradistrict transfer is selected, the district will ascertain the impact of the transfer upon the maintenance of appropriate racial and ethnic balances among the respective schools;
3. Intradistrict attendance in excess of school-site attendance area capacity will be determined by a random, unbiased process that prohibits pupil evaluation for enrollment based upon the pupil's academic or athletic performance; and
4. No pupil who currently resides in the attendance area of a school may be displaced by pupils transferring from outside the attendance area.

Chapter 915, Statutes of 1993, amended *Education Code* Section 35160.5(c) to specify that the intradistrict attendance program does not apply to any school district that has only one school or schools that do not serve any of the same grade levels. The amendment also requires school districts to determine school capacities within the district's jurisdiction.

On January 19, 1995, the Commission on State Mandates (COSM) determined that Chapters 161 and 915, Statutes of 1993, imposed a state mandate reimbursable under *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted *Parameters and Guidelines* on May 24, 1995. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school districts in claiming reimbursable costs.

**Objective,
Scope, and
Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Intradistrict Attendance Program for the period of July 1, 2001, through June 30, 2003.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures, as recommended by *Government Auditing Standards*. However, the district did not submit a representation letter.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the San Diego Unified School District claimed \$724,459 for Intradistrict Attendance Program costs. Our audit disclosed that \$412,789 is allowable and \$311,670 is unallowable.

For fiscal year (FY) 2001-02, the State made no payment to the district. Our audit disclosed that \$220,885 is allowable, which the State will pay contingent upon available appropriations.

For FY 2002-03, the State made no payment to the district. Our audit disclosed that \$191,904 is allowable, which the State will pay contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on May 6, 2005. Arthur M. Palkowitz, Manager, Office of Resource Development, responded by letter dated May 31, 2005 (Attachment), disagreeing with Finding 2. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of the San Diego Unified School District, the San Diego County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 2001, through June 30, 2003

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustment</u>	<u>Reference ¹</u>
<u>July 1, 2001, through June 30, 2002</u>				
Salaries and benefits	\$ 363,600	\$ 246,314	\$ (117,286)	Finding 1
Indirect costs	11,417	5,140	(6,277)	Findings 1, 3
Total direct and indirect costs	375,017	251,454	(123,563)	
Less offsetting savings/reimbursements	—	(30,569)	(30,569)	Finding 2
Total program costs	<u>\$ 375,017</u>	220,885	<u>\$ (154,132)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 220,885</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Salaries and benefits	\$ 341,586	\$ 224,099	\$ (117,487)	Finding 1
Indirect costs	7,856	3,038	(4,818)	Findings 1, 3
Total direct and indirect costs	349,442	227,137	(122,305)	
Less offsetting savings/reimbursements	—	(35,233)	(35,233)	Finding 2
Total program costs	<u>\$ 349,442</u>	191,904	<u>\$ (157,538)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 191,904</u>		
<u>Summary: July 1, 2001, through June 30, 2003</u>				
Salaries and benefits	\$ 705,186	\$ 470,413	\$ (234,773)	Finding 1
Indirect costs	19,273	8,178	(11,095)	Findings 1, 3
Total direct and indirect costs	724,459	478,591	(245,868)	
Less offsetting savings/reimbursements	—	(65,802)	(65,802)	Finding 2
Total program costs	<u>\$ 724,459</u>	412,789	<u>\$ (311,670)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 412,789</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable salary, benefit, and related indirect costs

The district claimed unallowable salary and benefit costs totaling \$234,773 for the audit period. The related indirect costs total \$6,385.

The district claimed costs for various administrative employees who performed the Random Selection Process and Schoolsite Capacity mandated activities. However, the district's records showed that restricted fund sources partially funded the salary and benefit costs for these employees.

For each employee, we used the district's payroll, benefit cost, and funding source records to calculate the portion of total annual salary and benefit costs funded by unrestricted fund sources. Unallowable costs resulted from those employees whose claimed costs exceeded costs funded by unrestricted fund sources.

The following table summarizes the audit adjustment.

	Fiscal Year		Total
	2001-02	2002-03	
Salary and benefit costs	\$ (117,286)	\$ (117,487)	\$ (234,773)
Related indirect costs	(3,683)	(2,702)	(6,385)
Audit adjustment	<u>\$ (120,969)</u>	<u>\$ (120,189)</u>	<u>\$ (241,158)</u>

Parameters and Guidelines states that reimbursement for this mandate received from any source—e.g., service fees collected, federal funds, other state funds, etc.—shall be identified and deducted from claimed costs.

Recommendation

We recommend that the district deduct from costs claimed any reimbursement received from other sources.

District's Response

The district did not respond to this finding.

SCO's Comment

The finding and recommendation are unchanged.

FINDING 2— Unreported offsetting reimbursements

The district did not report \$65,802 in offsetting reimbursements applicable to the mandated program. Offsetting reimbursements occurred because the district was partially reimbursed from federal and other state programs for salary and benefit costs claimed as direct costs.

The district claimed allowable salary and benefit costs totaling \$470,413 for the audit period. The district claimed these costs as direct costs on the mandated cost claims. However, the district also included \$174,610 of these costs in its fiscal year (FY) 2001-02 and FY 2002-03 indirect cost

pools. Therefore, other state and federal programs funded a portion of the mandated program direct costs through the district's indirect cost rates.

The district calculates its indirect cost rates based on expenditures of the general, cafeteria, adult education, and child development funds. We reviewed the district's revenue reports for these funds to determine the percentage of federal and other state revenues versus total revenues for FY 2001-02 and FY 2002-03.

The following table shows the offsetting reimbursement percentages we calculated and the audit adjustment calculation.

	Fiscal Year		Total
	2000-01	2001-02	
Salary and benefit costs included in district indirect cost pool	\$ 82,619	\$ 91,991	
Offsetting reimbursement percentage	×(37.00)%	×(38.30)%	
Audit adjustment	<u>\$ (30,569)</u>	<u>\$ (35,233)</u>	<u>\$ (65,802)</u>

Parameters and Guidelines states that reimbursement for this mandate received from any source—e.g., service fees collected, federal funds, other state funds, etc.—shall be identified and deducted from claimed costs.

Recommendation

We recommend that the district report offsetting reimbursements when it claims direct mandated costs that are included in its indirect cost pool.

District's Response

The State Controller's Office (SCO) states that the district did not report \$65,802 in offsetting reimbursements that occurred when direct costs claimed on the mandate were used in the calculation of the districts indirect cost rate, and therefore were assumed to have been partially recovered from federal and other state programs.

Government Code Section 17564(a) states that "indirect costs filed pursuant to Section 17561 shall be filed in the manner prescribed in the parameters and guidelines and claiming instructions." The parameters and guidelines and the claiming instructions allow the use of the indirect cost rate approved by the California Department of Education, which was based on the district's J-380. Therefore the district asserts that the SCO's adjustment is not consistent with parameters and guidelines the claiming instructions, and that these adjustments are inappropriate.

SCO's Comment

The finding and recommendation are unchanged. *Government Code* Section 17561 states that the State shall reimburse districts for costs mandated by the State. *Government Code* Section 17514 defines "costs mandated by the State" as any increased costs that a school district is required to incur.

We agree that *Parameters and Guidelines* allows the district to use the J-380 non-restrictive indirect cost rate approved by the California Department of Education. However, to the extent the district receives federal and state funds attributable to mandated program costs, the district has not incurred an increased cost. The district claimed various salary and benefit costs as direct mandated costs; however, the district also included these costs in its indirect cost pool. Because these costs increase the district's indirect cost rate, the district receives additional federal and state funds. The finding identifies the additional federal and state funds that the district receives as offsetting revenues attributable to the mandated program.

**FINDING 3—
Unallowable indirect
costs claimed**

The district claimed unallowable indirect costs totaling \$4,710 for the audit period. The district incorrectly applied its indirect cost rate to a portion of direct salary and benefit costs claimed.

Finding 2 disclosed that the district's FY 2000-01 and FY 2001-02 indirect cost pools included allowable salary and benefit costs that the district claimed as mandate-related direct costs. Therefore, the district cannot apply its indirect cost rates to those salary and benefit costs.

The following table summarizes the audit adjustment.

	Fiscal Year		Total
	2000-01	2001-02	
Salary and benefit costs included in district indirect cost pool	\$ 82,619	\$ 91,991	
Offsetting reimbursement percentage	× (3.14)%	× (2.30)%	
Audit adjustment	<u>\$ (2,594)</u>	<u>\$ (2,116)</u>	<u>\$ (4,710)</u>

Parameters and Guidelines states that all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs.

Recommendation

We recommend that the district identify all mandate-related direct costs that are also included in its indirect cost pool. The district should ensure that it does not apply its indirect cost rate to any costs included in the indirect cost pool.

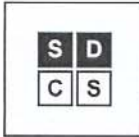
District's Response

The district did not respond to this finding.

SCO's Comment

The finding and recommendation are unchanged.

**Attachment—
District's Response to
Draft Audit Report**



SAN DIEGO CITY SCHOOLS

EUGENE BRUCKER EDUCATION CENTER
4100 Normal Street, San Diego, CA 92103-8363

(619) 725-7785
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FINANCIAL OPERATIONS DIVISION
Office of Resource Development

May 31, 2005

Jim L. Spano
Compliance Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

RE: INTRADISTRICT ATTENDANCE, CHAPTER 161/93 & 915/93

Dear Mr. Spano:

This letter is in response to the May 2005 Draft Audit Report. The State Controller's Office performed an audit of San Diego Unified School District's (district) Intradistrict Attendance claims for fiscal years 2001/2002 and 2002/2003. The district objects to *finding 2* regarding unreported offsetting reimbursements.

The State Controller's Office (SCO) states that the district did not report \$65,802 in offsetting reimbursements that occurred when direct costs claimed on the mandate were used in the calculation of the districts indirect cost rate, and therefore were assumed to have been partially recovered from federal and other state programs.

Government Code Section 17564(a) states that "indirect costs filed pursuant to Section 17561 shall be filed in the manner prescribed in the parameters and guidelines and claiming instructions." The parameters and guidelines and the claiming instructions allow the use of the indirect cost rate approved by the California Department of Education, which was based on the district's J-380. Therefore the district asserts that the SCO's adjustment is not consistent with parameters and guidelines the claiming instructions, and that these adjustments are inappropriate.

Please correct the draft audit report to find that the costs claimed by the district relating to *finding 2* are approved as claimed. If you need any further information, or would like to

"The mission of the San Diego City Schools is to improve student achievement by supporting teaching and learning in the classroom."

Letter to Jim L. Spano
Page 2
May 31, 2005

meet to resolve this matter, I can be reached at (619) 725-7785.

Sincerely,

A handwritten signature in blue ink, appearing to be 'AP', with a large loop at the end.

Art M. Palkowitz
Manager, Office of Resource Development

AMP:jlt

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>